

### Materiality Test for PNMI Rate Adjustments

The Division of Rate Setting (Division) is charged with issuing guidelines for materiality for purposes of PNMI providers applying for rate adjustments pursuant to V.P.N.M.I.R. §8. Providers cannot request an adjustment to their final rates unless the proposed adjustment is material. Materiality varies based on the annual total allowable costs of the program.

The following chart details the materiality test for provides.

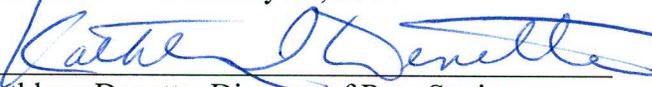
<b>Total Base Year PNMI Allowable Costs</b>	<b>Materiality Test for Rate Adjustment</b>
Up to and including \$600,000	3.0%
\$600,001 - \$1,000,000	2.5%
\$1,000,001 - \$1,800,000	2.0%
\$1,800,001 - \$4,000,000	1.5%
Over \$4,000,000	1.0%

Providers who are seeking an adjustment to their rates must first analyze whether the requested adjustment meets the appropriate materiality test. In order to be fair, providers with higher annual PNMI costs have a lower percentage threshold for requests for rate adjustments and conversely, providers with lower annual PNMI costs have a higher percentage threshold. This results in adjustments of approximately the same magnitude being allowable for all providers.

In order to meet the materiality test, the total annual proposed adjustment should be equal to or greater than the applicable materiality percentage applied to the total base year annual PNMI costs. For example, a program with total base year costs of \$750,000 would have a 2.5 percent materiality test for requests for rate adjustments, or \$18,750. This provider could not request an adjustment to its rate unless the annual proposed adjustment amount was at least \$18,750.

Providers who anticipate increasing their program expenses should request a rate adjustment if they meet the applicable materiality test. Alternatively, providers who do not meet the materiality threshold for rate adjustment requests or who do not wish to request an adjustment to their final rate, but anticipate increasing their total annual costs should request preapproval for these expenses pursuant to V.P.N.M.I.R. §4.3. Approved rate adjustments and preapproved increases of program expenses are exempt from the inflation factor limitations pursuant to V.P.N.M.I.R. §§6.7, 7.4(b) and 7.5(c).

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Kathleen Denette, Director of Rate Setting